

**ALASKA STATE LEGISLATURE
SENATE JUDICIARY STANDING COMMITTEE**

September 3, 2021

1:32 p.m.

MEMBERS PRESENT

Senator Roger Holland, Chair
Senator Shelley Hughes
Senator Robert Myers
Senator Jesse Kiehl

MEMBERS ABSENT

Senator Mike Shower, Vice Chair

OTHER LEGISLATORS PRESENT

Representative James Kaufman

COMMITTEE CALENDAR

SENATE JOINT RESOLUTION NO. 301

Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit; and relating to the budget reserve fund.

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SJR301

SHORT TITLE: CONST. AM: APPROP LIMIT

SPONSOR(s): SENATOR(s) MYERS

09/01/21	(S)	READ THE FIRST TIME - REFERRALS
09/01/21	(S)	JUD, FIN
09/03/21	(S)	JUD AT 1:30 PM BUTROVICH 205

WITNESS REGISTER

MATTHEW HARVEY, Staff
Representative James Kaufman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions on SJR 301 on behalf of Representative James Kaufman, sponsor of the companion bill.

REPRESENTATIVE JAMES KAUFMAN

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified as sponsor of the companion bill to SJR 301.

DAN ROBINSON, Research & Analysis Chief

Division of Administrative Services

Department of Labor and Workforce Development (DOLWD)

Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on SJR 301 on behalf of the administration.

CAROLINE SHULTZ, Policy Analyst

Office of Management and Budget

Office of the Governor

Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on SJR 301 on behalf of the administration.

ED KING, Staff

Senator Roger Holland

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on SJR 301 on behalf of Senator Holland.

ACTION NARRATIVE

[1:32:34 PM](#)

CHAIR ROGER HOLLAND called the Senate Judiciary Standing Committee meeting to order at 1:32 p.m. Present at the call to order were Senators Myers, Hughes, Kiehl, and Chair Holland.

At ease from 1:33:16 to 1:33:45

SJR 301-CONST. AM: APPROP LIMIT

[1:33:45 PM](#)

CHAIR HOLLAND reconvened the meeting and announced the consideration of SENATE JOINT RESOLUTION NO. 301 Proposing amendments to the Constitution of the State of Alaska relating

to an appropriation limit; and relating to the budget reserve fund.

1:34:09 PM

SENATOR MYERS, speaking as sponsor of SJR 301, stated that this legislation proposes a constitutional spending limit. As part of the fiscal plan, the Fiscal Policy Working Group (FPWG) unanimously recommended revising Alaska's spending limit as part of a comprehensive solution before revenues begin to rise. The spending limit would provide a spending limit of 14 percent of real state Gross Domestic Product (GDP) minus government spending. It would provide certain exceptions, including the largest from a non-state source or primarily federal funds. It would average state GDP over the last five years to smooth out annual fluctuations. It would allow flexibility by statute to lower the limit later and adjust the rate as necessary. It would alter the ability to spend from the Constitutional Budget Reserve (CBR) to a simple majority vote if the amount available in the general fund (GF) is lower than the appropriation limit being proposed.

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SENATOR MYERS said that SJR 301 would effectively prevent unsustainable run-ups in state spending when state revenues rise. Given the nature of Alaska's boom and bust economy since territorial days, a future revenue rise is inevitable, he said.

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SENATOR MYERS presented a graph titled "Comparison of Alaska State Real GDP for Private Industry Only and State Total Operating Budget with Capital UGF without PFD, Bonds and General Obligation." This graph shows what happened in the past several decades without an effective spending limit. Further, it shows how a quick rise in state revenues led to a rapid rise in spending. It shows that spending compares to the proposed spending limit, which is shown by the upper gray line on the graph. This illustrates how the state is dealing with the "leftovers" from that rise in spending. It shows that the spending limit has come close to where the state was before the rise. It has become politically tricky to reduce spending, so it is not happening, he said.

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SENATOR MYERS said that states with spending limits tend to have higher GDP and population growth. There are multiple benefits outside of government as well as inside government. Currently, the POMV 5 percent draw is the only spending limit, but it is

not effective on its own. It is only a partial revenue cap, not a full spending limit since it does not account for revenues outside of the permanent fund or investments that rise faster than state growth. He predicted that the state will face a slow population growth combined with rapid growth in the stock market. In fact, this has been occurring over the last 18 months, he said. This means that the money available to spend will continue to rise during the same time that the state is not growing, he said.

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SENATOR MYERS stated that an appropriate spending limit helps save for future downturns. He recalled previous testimony indicated, depending on the how the spending limit was structured, that the spending limit over the last 15 years could have provided \$150 billion to the permanent fund, thereby eliminating the fiscal crisis. Even if the state had saved and not invested, the state would have ultimately saved over \$14.7 billion as shown by the red line above the gray line on the graph.

SENATOR MYERS pointed out that revenue spikes in Alaska tend to lead to high capital spending. He said a significant amount of the peaks depict capital spending as shown by the red line. Since projects happen simultaneously, maintenance costs tend to fall due at the same time. This often occurs during periods of low revenue. He argued that one current problem is that the maintenance from the early 1980s capital projects is all coming due. However, smoothing out the spending over time will also help smooth out maintenance costs.

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SENATOR MYERS explained that previous spending caps tended to be based on prior spending using a multiplier, such as inflation or population. This has caused some perverse incentives when switching between funding sources such as the state experienced this year. When state general funds were replaced with federal American Rescue Plan (ARP) funding it effectively lowered the state general funds spent this year but it would not allow it to increase next year. Such occurrences may cause policymakers to decide not to take federal funding to alleviate some of the issues. Tying the spending cap to GDP takes the calculation outside of the government arena. It would fix the problem because it doesn't depend on previous years' spending. The proposed 5-year average in GDP growth would also provide a lag in the effect of a downturn giving the state a year or two of

rising spending while the state tries to find its way out of a recession.

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SENATOR MYERS offered his view that when government obtains the majority of its funds from investments like the permanent fund, it does not need to rely on the private sector for funding. This can lead to a tendency for government to not be concerned about what happens in the private sector. Growth in the private economy tends to attract more workers to Alaska to spread the spending among more people without raising the amount available to spend. He said the state needs to encourage government to grow the economic base as a whole. Tying government growth to GDP would encourage that to happen, he said. As the private economy grows, it affects government services since it means more students are enrolled in schools, more money is needed for road maintenance due to increased traffic or more troopers are needed since economic booms tend to bring more crime. However, tying spending to GDP will increase government for the right reasons. He emphasized that this will help the government be the servant and not the master in Alaska.

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SENATOR MYERS stated that the current spending level is already within the proposed limit. Therefore, it is possible to enact a spending limit without forcing significant immediate cuts. He stated that Representative Kaufman created this concept and sponsored HJR 301, which is the companion bill to SJR 301.

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SENATOR HUGHES said she likes the premise in SJR 301 because it is important for the cost of government not to exceed what the private sector can afford. She related her understanding that once the permanent fund reaches \$100 billion, the amount of draw would be large enough that the state will not need to be concerned about what happens in the private sector. She cautioned that government spending increased during boom periods in oil production.

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SENATOR HUGHES played the devil's advocate by asking whether a boom in GDP should increase government spending. She noted that this proposal incorporates a rolling average. She highlighted one problem with the original spending cap in the Alaska Constitution was that the inflation rate and population growth allowed government spending to increase. She explained that as government grows, there is not a 1:1 correlation between

population and the need for additional government employees. For example, adding 100,000 more children in the 54 school districts doesn't mean that the Department of Education and Early Development (DEED) needs to increase their employees on an equal basis since enrollment occurs in 54 school districts. However, that scenario would require additional law enforcement or prosecutors. She commented that the GDP goes up with a boom. She asked how this would be different under SJR 301.

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SENATOR MYERS responded that part of the conflict reflects that up until recently oil represented 20 percent of Alaska's GDP but it provided 85-90 percent of the state's revenue. Thus, revenue rose much faster than GDP, which is the reason Alaska ended up overspending. Since SJR 301 proposes tying the spending cap to GDP, it will help encourage the state to broaden other sectors of the economy. He agreed that government does not need to grow at a 1:1 ratio compared to GDP, but the 14 percent proposed in SJR 301 is a 1:7 ratio. SJR 301 will still provide for necessary growth as the population grows, he said. He noted that GDP already incorporates inflation plus it indirectly incorporates population growth. In a sense, this resolution already addresses those easily identified indices, he said, but it does so in a rational way by basing it on how government can best serve Alaskans.

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CHAIR HOLLAND pointed out that the table in members' packets shows that many states base their tax and expenditure limits on personal income growth. He asked whether any other states were using GDP.

SENATOR MYERS answered no. He explained that one problem in Alaska is that the state has a higher concentration of higher wage jobs, such as those in the oil sector, and lower wage jobs in others, such as retail and restaurants, but fewer mid-range jobs. Thus, personal income growth doesn't track as well using GDP as it does in a number of other states to determine how well the economy is functioning.

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CHAIR HOLLAND asked the rationale for using 14 percent as the statutory cap in SJR 301.

[1:50:10 PM](#)

MATTHEW HARVEY, Staff, Representative James Kaufman, Alaska State Legislature, Juneau, Alaska, on behalf of Representative

James Kaufman, responded that initially the companion bill, HJR 301 started with the statutory limit of 11.5 percent, which is the current level. Next, he reviewed the savings at various rates and found that 2.5 percent higher would provide a good rate, based on what has been drawn down in the CBR, the spending growth, and the overall savings.

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CHAIR HOLLAND commented that it seemed as though 14 percent was selected to curtail spikes in spending yet still provide for a little growth.

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SENATOR KIEHL asked for a general overview of what is included in GDP.

[1:52:11 PM](#)

MR. HARVEY answered that GDP would add factors such as population, inflation and productivity that lead to personal income, plus business factors and government spending. Since SJR 301 backs out government expenditures, GDP would be based on personal income and business activity.

SENATOR MYERS added that GDP is personal consumption, business investment, government expenditures and net exports, which includes oil, fish and mining. SJR 301 backs out government in an effort to proportion government to the private economy. He said he would like to see net exports grow but those are often a product of business investment.

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SENATOR KIEHL stated that the Alaska Constitution discusses managing the resources for people's use and benefit. He asked why SJR 301 bases the spending limit on business activity and exports rather than basing it on what directly benefits Alaskans, which is personal income. Personal income would reflect and be dependent on business activity, which also includes resource activity into the foreseeable future.

MR. HARVEY answered that in Alaska GDP is volatile, which is why a smoothing factor was included. He explained that personal income runs along that same line. Government should be proportional to the population for services like law enforcement and schools. Other government spending includes regulators, audits, permitting, project management and engineering. He said that including business activity may better tether government to needs of Alaska as a whole, which relates to population,

inflation, productivity and business activity because government should support all of those functions.

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SENATOR HUGHES asked for an assessment of the current GDP and where the state is with its spending.

REPRESENTATIVE JAMES KAUFMAN, Alaska State Legislature, Juneau, Alaska, speaking as sponsor of HJR 301, the companion bill to SJR 301, answered that the GDP is currently at 11.5 percent. He said these resolutions propose a new constitutional spending limit set at 14 percent with high head room, but it allows the legislature to dial it back statutorily. For example, he introduced HB 4006, which would set the appropriation limit to 11.5 percent. Currently, the legislature is seeking budget reductions so a bill can provide the mechanism for the legislature to dial down spending by setting a strategic target. He said the resolution is a robust indicator and measure of the economic sector using a trailing 5-year average of the private sector economic performance to smooth it out. The appropriation limit was designed to create something relevant, robust and flexible but not so rigid it will break. He opined that is why SJR 301 is set at 14 percent, even though spending at that rate would be too much. The bill allows the state to fine tune the rate.

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SENATOR HUGHES wondered if there would be a conflict if the constitutional amendment is set at 14 percent and the statute at 11.5 percent. She asked if that would provide a guideline since the courts might view it as such.

REPRESENTATIVE KAUFMAN deferred to Legislature Legal Services to respond. He suggested that it can provide something to point to spending, which the legislature does not currently have. The legislature is so far out of range with the expenditure limits that it is irrelevant. He characterized the current legislative discussions as arguments over spending rather than setting a healthy spending limit.

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CHAIR HOLLAND stated that Legislature Legal was not available today.

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SENATOR MYERS responding to Senator Hughes' question, referred to page 2, lines 2-4 "The percentage that applies to the

calculation in this section shall be established by law except that the percentage shall not be more than fourteen percent." He said he would need to ask Legislative Legal or wait for the courts to weigh in to see the result. This language seems to strongly state that the spending limit would be set and followed.

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SENATOR KIEHL said Senator Hughes' question leads to a broader question. He acknowledged that the current limit in the Alaska Constitution has not limited spending. It hasn't stopped the legislature from cutting budgets, growing budgets or arguing over the right level, which is the role of representatives in a republic. He asked why it is necessary to limit future representatives.

SENATOR MYERS responded that unfortunately politicians do not always do what is rational. Instead of looking ten years out, the legislature often only considers two-years out since that is an election cycle. As money becomes available, the legislature devises ways to spend money, including when the pipeline was built. He advocated for saving more and spending less. However, it is easy for spending to rise but it is difficult to downsize spending unless the state runs out of money. The arguments in the legislature show how difficult it can be to reduce the budget. SJR 301 would provide a significant piece of the puzzle by putting the state on a long-term, sustainable fiscal path. As most financial planners would agree, a long-term, sustainable financial path can provide stability and a look-forward instead of looking at how much money is in the bank account today.

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REPRESENTATIVE KAUFMAN highlighted that SJR 301 would provide an instrument of agreement. He said the spending limit was intentionally set high. He directed attention to the peaks on the graph that reflect the periods of excess spending. He stated that had this spending limit been in place, it would have prevented the legislature's worst excesses. First, the state would have \$3 billion in the bank and it would have smoothed out the peaks. Second, if the statute had limited spending to 11.5 percent, the state would have \$22 billion in the bank. This would have occurred simply through the smoothing process without taking the drastic measures using the five-year lag formula. In addition, the spending limit could provide a sense of the agreement on spending. The legislature could argue over the bill and build consensus. Certainly, he would like to see the smoothing of maintenance costs. Finally, rather than funnel the

legislature into a constricted path, it would provide stability. He characterized it as a reasonable path with good boundaries.

2:05:59 PM

REPRESENTATIVE KAUFMAN pointed out it is important to look at the right factors. In his background in quality management, he has found it is important to select a key indicator to use as a reference and build the metric. SJR 301/HJR 301 selected the best key indicator to reference spending and build that metric, which is how the range between 14 and 11.5 percent was selected to use as guidance. He said he has discussed this concept with economists and it seems to fit Alaska's unique experience and spending history.

2:07:15 PM

CHAIR HOLLAND related his understanding that one reason for SJR 301 was to create concern for state government and success for the private sector. He highlighted some concern exists over appropriating matching dollars to capture federal dollars and about living within 5 percent POMV to the detriment of the state's economy. Under SJR 301, as the state GDP grows and the private sector economy is encouraged to grow, the state will be invested in it and benefit from it. He acknowledged that personal growth was a consideration.

REPRESENTATIVE KAUFMAN agreed. He stated that the relevant indicator should show the economic health as a key performance indicator of what is happening in the economy. Although the permanent fund is great for the state, it also has a moral peril. In fact, the legislature is grappling right now to decide what the right disbursement to the public should be and what is best moving forward. One thing the legislature must do is to guard against dependency at the expense of other growth. He concluded that the state needs to decide how to proceed and if it should spend or store its wealth.

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SENATOR MYERS stated that the smoothing and fiscal stability that SJR 301 will provide would encourage private investment. States with effective spending limits end up with higher GDP growth because they are more fiscally stable. He directed attention to the red line on the graph to illustrate the state's instability. He recalled Dr. Reitveld discussed Harvard's endowment and other endowments and how those funds are used. Further, the City of Fairbanks has had a permanent fund for 25 years but it does not live on it. Neither does Harvard, he said. The state proposes that the permanent fund provide the bulk of

the funding, supplemented by other revenues. This is backwards, he said. Many endowments, including Harvard and the City of Fairbanks, build their budgets based on their regular revenue. He compared the two scenarios. One is retirees who live on their savings. The other are workers in the workforce who rely on income earned to provide for living expenses and their savings to smooth it out. The state is in danger because it relies on the permanent fund to provide budgetary funds thereby acting more like a retiree. He questioned what the state actually produces. He characterized the state as acting as the master and not the servant.

[2:14:06 PM](#)

SENATOR KIEHL said Representative Kaufman and Senator Myers just provided the justification for a broad-based tax. He questioned the notion of trying to limit what government has available in relation to income and production but not tying regular income to it. He stated that under SJR 301 the state still runs the risk of a distorted tax policy with only one or two industries paying all the bills.

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At ease

[2:15:47 PM](#)

CHAIR HOLLAND reconvened the meeting.

[2:16:00 PM](#)

SENATOR HUGHES asked that the sponsors request a legal opinion to address the discrepancy between the language in the constitutional spending limit and the statutory language. In response to Senator Kiehl, she said one of the main reasons for the constitutional spending cap is to attract businesses by providing certainty. Many businesses and organizations, including the Alaska Chamber and the Alaska Support Industry Alliance, have stability as their first priority.

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SENATOR HUGHES asked why the GDP rolling average would be better than the current system. She noted that some spending limit proposals are pinned to an inflation adjustment, which would be smoother since Alaska's GDP is volatile. Second, she asked how many states have a spending limit. Lastly, she asked whether this would create a revenue gap between the POMV draw and the 14 percent limit. She predicted that legislators would likely use the entire 14 percent, creating a spending gap if it were in the Alaska Constitution.

[2:19:57 PM](#)

MR. HARVEY responded that there are two types of spending caps. One limits how much spending can grow and the other is an absolute limit on spending. There are various factors that can be used, including population, inflation, business and productivity. One possible problem with limits on growth tied to population and inflation was raised in the sponsor's initial statements. This relates to replacing general fund spending with another source not subject to the cap, such as federal spending. This can cause the general fund spending to be decreased at least temporarily due to a fund source swap. If the spending cap is tied to the growth factor, it would be possible to ratchet it down. Since the proposed cap in SJR 301 is an absolute spending limit, it would not necessarily have that ratcheting effect. State spending would have some peaks and troughs but the smoothing factor would remove the peaks and troughs due to GDP volatility.

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REPRESENTATIVE KAUFMAN responded that with respect to inflation and population, Alaska's inflation is often disconnected, which is why this proposal would move away from that concept. Ten years ago, the cost of living differential between Alaska and the Lower 48 was much greater than it is now. Alaska has stagnated. However, Alaska's situation is unique in the nation. If it were linked to the national inflation, it might measure something that isn't necessarily true in Alaska, he said.

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SENATOR MYERS pointed out that Representative Kaufman mentioned that the rate of inflation is not the same rate as the national inflation. It is more difficult to measure inflation in a state with a small population like Alaska. Senator Hughes mentioned GDP spikes, which he acknowledged can occur, but an inflationary spike can also occur. In fact, that is currently happening in the US. Inflation has been hovering under 2 percent since the Great Recession but right now it is at 6 percent. One reason for Alaska's GDP spike historically is due to the state's dependence on commodities such as oil. However, oil prices can swing wildly. Part of what he hoped SJR 301 would do is to broaden the state's economy to other areas without resulting in wild swings.

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SENATOR MYERS reviewed the list in members' packets of 23 states that have spending limits. He pointed out that some have revenue limits, some have constitutional provisions and others have

statutory ones. Some states have both revenue and spending limits. He said that Alaska technically is one of the 23 states that has a spending limit. However, the state's spending limit is effectively meaningless, he said.

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SENATOR HUGHES reiterated her third question, which was whether it would create a fiscal gap from 11 to 14 percent.

MR. HARVEY answered that if SJR 301 was in place there would be a gap. It would be up to the legislature to determine if it wanted to seek additional revenue to spend up to that limit.

SENATOR HOLLAND pointed out the state currently has a fiscal gap.

[2:26:16 PM](#)

SENATOR HUGHES asked for the gap calculation between the 5 percent POMV draw and the 14 percent limit.

MR. HARVEY answered that including all revenue, the current spending of \$1 billion falls just under the 14 percent proposed in SJR 301.

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SENATOR KIEHL asked if he could elaborate on the choice of GDP. When things are going poorly, it is important for government to spend counter cyclically. As Senator Myers alluded to, it can be done in foolish ways, but it can also be done in responsible ways that help the private sector recover. Given the fluctuation in oil revenues and resource extraction in Alaska, he asked if the other factors like personal income smooth in ways that would allow the government to act more counter cyclically.

[2:27:57 PM](#)

MR. HARVEY answered that the counter cyclical effect is shown on the gray line in the graph. He explained that the smoothing effect levels the peaks and valleys to resemble rolling hills, which are funds that would not have been spent if the spending limit was in place. The counter cyclical effect takes effect when revenues decrease and the limit is above that spending. The net effect would result in a savings of \$3 billion.

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SENATOR MYERS responded to Senator Kiehl's point on the difference between using GDP versus personal income. Alaska's economy is heavily influenced by commodities prices. The sectors

such as oil, mining or fishing tend to be high-paying jobs, but they tend to be the jobs lost when those commodity prices dip. He offered to double check but said the lower-paying jobs such as retail and hospitality typically last longer. Although he would need to check with an economist, he offered his view that occurrence would ratchet down the spending faster than measuring GDP as a whole.

2:30:15 PM

SENATOR KIEHL stated it would be interesting to see those figures. He suggested that a significant number of peaks in state expenditures were due to increases in the capital budget. Historically infrastructure often results in deferred maintenance when revenues are down, which are covered when revenue increases. That is fairly valid. However, with the spending cap, when revenues increase, the ability to fund deferred maintenance is constrained. He expressed concern related to ongoing deferred maintenance for buildings driving costs up. He asked for the mechanism to cover deferred maintenance other than general obligation (GO) bond debt, which he noticed was exempt.

2:31:45 PM

SENATOR MYERS responded that while there is not a mechanism, the incentives have changed. Currently, the legislature finds ways to spend additional revenue. The spending cap will force the legislature to do long-term planning. It will primarily force the departments, primarily the Department of Transportation and Public Facilities (DOTPF), and legislators to plan ahead. It may mean keeping the operating budget constrained to allow for a capital budget or planning capital projects and building maintenance schedules because the projects will not be added after the operating budget is approved. It will help the economy because capital budget spikes tend to result in bringing in operating engineers or construction workers for a couple of years. These workers make substantial money and go home, he said. Under a spending cap, it would tend to turn transient workers into residents because the work is steady. These new residents raise families and help build the state moving forward.

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REPRESENTATIVE KAUFMAN highlighted that it also relates to how well the state optimizes the funds on the few critical things. He recalled committee testimony that gave Alaska a very low score on its infrastructure. However, the state has spent \$1 billion per year for ten years. He said he wondered why the

state received such a low score. The theme of this resolution is continuous improvement. SJR 301 does not institute a partisan cap that is designed to slash budgets or start arguments but is designed to help the state learn to do a better with its revenue and find processes to smooth out the financial situation.

[2:36:36 PM](#)

DAN ROBINSON, Research & Analysis Chief, Division of Administrative Services, Department of Labor and Workforce Development (DOLWD), Juneau, Alaska, remarked that the division is policy neutral on SJR 301. He offered to answer any technical questions members may have

[2:37:03 PM](#)

SENATOR MYERS asked him to address whether using GDP or personal income is the better approach.

[2:37:28 PM](#)

MR. ROBINSON explained that the volatility of GDP is primarily tied to the volatility of oil prices in Alaska. Those swings are dramatic compared to other states. Personal income tends to bounce around significantly less. He explained that it is definitional in terms of which one is better for the economy. GDP is hard to measure but conceptually it is simple. It is the value of goods and services produced by the economy. Those figures must be backed into as some previously mentioned. However, much of that value does not stay in Alaska. For example, BP makes a lot of money in Alaska because oil prices are high, but shareholders of BP make a lot of that money. It leaves the state. Personal income is a different definitional concept. It is income going to residents. About two-thirds of income is wages but it also includes transfer payments, which is money from government, such as the permanent fund dividend. The additional personal income component is derived from dividends, interest and rent, which is investment income.

[2:39:17 PM](#)

SENATOR KIEHL asked for the value of Alaska GDP attributable to federal government spending.

MR. ROBINSON answered that the federal government was approximately \$2 billion for the military and \$2 billion for non-military out of \$52 billion.

[2:40:24 PM](#)

CAROLINE SHULTZ, Policy Analyst, Office of Management and Budget, Office of the Governor, Juneau, Alaska, stated that she

was available to answer questions on the governor's bill, SJR 5. She suggested that there was synergy between the two proposals. The main priority from the administration's perspective is to establish a working appropriation limit in the Alaska Constitution. SJR 301 has a lot of potential, she said.

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SENATOR HUGHES asked Mr. King to provide his background.

[2:42:01 PM](#)

ED KING, Staff, Senator Roger Holland, Alaska State Legislature, Juneau, Alaska, on behalf of Senator Holland, answered that he has worked as an economist for the last seven years for the State of Alaska. He said he served the state working at the Department of Revenue (DOR), Office of Management and Budget, the Department of Natural Resources (DNR) on behalf of the governor and for the legislature in various roles. He related he is a professional economist with a master's degree in Economics.

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MR. KING explained GDP versus personal income. Most states with constitutional amendments tied to the economy have been linked to personal income. Most of those limits were put into place in a different era. The economy continues to become more digitized and connected. As the state's population is aging, more and more of the personal income is coming from retirement income versus wages. Over the last 40 years the way the economy functions significantly changed.

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MR. KING said he was unsure when those constitutional amendments were put in place, but if they had been in place prior to 2000, the economy was different. Thus, a case could be made that GDP is a better reflection of what happens locally. If the government is designed to provide services locally, government would want an economic measure that measures locally, he said. If personal income is increasingly coming from pension accounts and federal government transfer payments, an argument could be made that the connection to the economy is becoming diminished. He acknowledged that he would need to confirm if that was a valid argument. However, GDP is a measure of the value being produced locally so it is a better direct tie to what is occurring domestically. As Mr. Robinson stated, GDP in Alaska is very volatile because the value of the oil, which is price multiplied by quantity, is volatile.

[2:44:50 PM](#)

MR. KING said when oil price changes, the GDP changes. When oil volume declines, GDP declines. The tie for Alaska's economy is very connected to the price and production levels of what occurs on the North Slope. That is becoming less important as the production gets closer to zero production. If the state seeks a constitutional amendment that has durability 50-100 years from now, that issue may not exist. In the meantime, there is more volatility in GDP than for personal income, which is more so in Alaska than in other states.

[2:45:34 PM](#)

MR. KING said the five-year average, does a lot to solve the problem and smooths out volatility over time. He explained that the modeling shows it does seem to reduce the volatility.

[2:46:04 PM](#)

SENATOR HUGHES asked whether due to the greater volatility of oil, it should be based on a ten-year rolling average instead of the five-year average. It could be reconsidered if the economy diversifies over time.

[2:46:28 PM](#)

MR. KING answered that the balance is difficult with smoothing factors. The longer the smoothing factor is, the less it tracks what is currently happening. Ideally, a spending limit should be connected to what is currently happening but also does not have very high swings. He characterized it as finding the sweet spot that smooths out volatility but not so far that it is detached from the current environment. He opined that five years would provide a better balance than 10 years because situations can arise in which the economy grows quickly or falls sharply. It would take 10 years before the government spending limit caught up to the economy. He also pointed out that the five-year smoothing provides a transition period into dramatic and permanent changes in the economy. As Senator Kiehl pointed out, government should perform counter cyclically. The legislature would not want the government to be forced to drastically reduce spending if the economy is facing a dramatic decrease at the same time. That smoothing factor detaches somewhat so if a dramatic fall in the GDP occurs, there is not a corresponding immediate fall in the requirement for government spending. Instead, it transitions to that new level, he said.

[2:48:17 PM](#)

CHAIR HOLLAND advised members that Mr. King is available to answer questions that arise.

[2:48:40 PM](#)

SENATOR HUGHES, with respect to the allowance for disasters or disaster declarations in SJR 301, asked whether a sudden drop in the economy would allow the state to go outside of the limit. She asked if the disaster statutes address a drastic drop in the economy.

SENATOR HUGHES recalled concerns were raised about deferred maintenance. She pointed out that no new highways have been built since the 70s. She stated that opening up areas of the state can help the economy. She asked whether the sponsors of either constitutional amendment might be open to an amendment that would allow for new infrastructure if a windfall occurred. She acknowledged that Alaska is a young state so there is need for new infrastructure.

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SENATOR MYERS responded that he would be open to it if it required a vote of people. He said SJR 301 allows for it but instead of spending it requires the state to issue a general obligation (GO) bond, which is not counted towards the spending limit. There is something to be said for spending current funds rather than borrowing.

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SENATOR KIEHL referenced Mr. Robinson's response. SJR 301 states that the value of real GDP shall not include expenditures for government spending. However, it does not differentiate between federal or state government spending. He recalled that during the time he spent serving on the Juneau Assembly, he wanted the US Coast Guard to put fast response cutters in the community for jobs, infrastructure and maritime security benefits. He asked the sponsors of SJR 301 and HJR 301 why that infrastructure should be excluded from GDP since it impacts schools and other services when transient families reside here.

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REPRESENTATIVE KAUFMAN responded that the reason to seek federal infusions is not solely related to direct spending, but for the stimulus effect on commerce. He stated his goal was to measure the beneficial or detrimental effects on the private sector economy.

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REPRESENTATIVE KAUFMAN responded that the state does not have direct control over federal decisions on where to place fighter planes. However, the state can monitor and guide state

appropriations based on the indirect effects it has on the private sector economy. The military spending in communities provides a private sector bump in communities.

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SENATOR KIEHL pointed out that this approach does not provide funding to educate the children of military members.

REPRESENTATIVE KAUFMAN pointed out that it consists of the best way to measure but to also consider the factors, such as what is being sampled and the length of the time lag to smooth it out and if it is 12 or 14 percent. He reviewed those factors in models to see the effects. He offered his view that this adequately rolls in the dynamics of the economy. The state would not want to gauge state spending on federal spending for a building. Instead, the state should measure the economic activity created locally by that federal decision.

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SENATOR MYERS pointed out there are four components of GDP. Senator Kiehl is asking whether the third component of government spending, which is federal spending in Alaska, should qualify as government spending or if it should be considered as an export. In some ways it has the same effect as an export, which is to bring in funds from outside the economy. He asked Senator Kiehl whether he was alluding to amending SJR 301 on line 5, which currently reads, "shall not include expenditures for government spending." It would read "shall not include expenditures for state government spending."

SENATOR KIEHL agreed conceptually it was.

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SENATOR MYERS said he would want to consider this further. At first blush, it seemed like a decent clarification because as Representative Kaufman cautioned, this resolution should not base government spending on how well government is doing. Instead, government spending should be based on how well the rest of the economy is doing. The effect that federal spending has is to provide an injection into the state. It makes sense to treat it differently, he said.

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MR. KING pointed out that there is a feedback mechanism in government spending to have it tied to GDP. He assumed that government spending was being excluded due to that feedback mechanism. Representative Kaufman is correct that big federal

projects provide a multiplier effect even if the spend is not included. It gets captured in GDP so there is a connection, but it is not 1:1. The Bureau of Economic Analysis in its disaggregation of GDP does separate state and local spending from federal and military spending. Thus, if there was a desire to exclude state and local spending but not federal spending it is possible to do so. However, it is not possible to separate state spending out since state and local spending must be combined.

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SENATOR MYERS said he was happy to bring SJR 301 forward.

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REPRESENTATIVE KAUFMAN said what is important is to find an awesome indicator and apply it correctly to provide a steady hand on the rudder so the state can operate more smoothly with better results. If it is not this model, it will be because members found a better one, he said.

[SJR 301 was held in committee.]

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There being no further business to come before the committee, Chair Holland adjourned the Senate Judiciary Standing Committee meeting at 3:00 p.m.